

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the matter of:

**APPLICATION OF LICKING VALLEY RURAL
ELECTRIC COOPERATIVE CORPORATION
FOR AN ORDER APPROVING KY ENERGY
RETROFIT RIDER PERMANENT TARIFF**

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Case No.

2014-_____

APPLICATION

Licking Valley Rural Electric Cooperative Corporation ("Licking Valley RECC") hereby petitions the Commission by application to issue an Order approving a permanent on-bill financing program based upon the tariff sheets and other supporting documentation attached to this application. This program will be titled "Kentucky Energy Retrofit Rider" ("KER Rider"), and Licking Valley RECC will partner with the Mountain Association for Community Economic Development ("MACED") to operate the program.

Licking Valley RECC requests that Case Nos. 2010-00089, 2012-00484, and 2013-00398, as well as the periodic reports on those cases that have been submitted semi-annually, be incorporated into the record of this case by reference.

In support of this application, Licking Valley RECC states:

1. Licking Valley RECC's post office address is 271 Main Street, Post Office Box 605, West Liberty Kentucky 41472
2. A certified copy of Licking Valley RECC's Articles of Incorporation is attached as Exhibit D.
3. There are no applicable statutes, regulation, or Commission Orders that require Licking Valley RECC to publish or file notice of this application prior to, or

contemporaneously with, the filing hereof. In particular, the provisions of 807 KAR 5:011 do not require publication of filing of notice.

4. Licking Valley RECC is a public utility, as defined in KRS 278.010(3)(a), and is a non-profit corporation engaged in the electric business. Licking Valley RECC purchases, distributes, and sells electricity at retail in Breathitt, Elliott, Lee, Rowan, Magoffin, Menifee, Morgan, and Wolfe counties. East Kentucky Power Cooperative, Inc. ("EKPC") is the wholesale power provider for Licking Valley RECC.¹

5. MACED was founded in 1976 as a private, non-profit corporation organized to provide comprehensive community development to support Appalachian communities by enhancing employment and living conditions in the area. MACED's major programs consist of business development, sustainable forestry, energy efficiency, and public policy research and education. MACED is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code as a non-profit organization other than a private foundation. MACED serves Kentucky and Central Appalachia, with a focus on the 54 Appalachian counties of Kentucky as designated by the Appalachian Regional Commission.²

PROPOSED PROGRAM

6. The KER Rider will be a voluntary program available to qualifying residential and commercial/small industrial customers of Licking Valley RECC.

¹ EKPC assisted in the KERR Pilot by facilitating discussions and coordinating the circulation of draft documents in conjunction with the proposed program. However, as no changes are required to its tariffs as a result of the proposed program, EKPC is not an applicant in this proceeding.

² The counties are Adair, Bath, Bell, Boyd, Breathitt, Carter, Casey, Clark, Clay, Clinton, Cumberland, Edmonson, Elliott, Estill, Fleming, Floyd, Garrard, Green, Greenup, Harlan, Hart, Jackson, Johnson, Knox, Laurel, Lawrence, Lee, Leslie, Letcher, Lewis, Lincoln, McCreary, Madison, Magoffin, Martin, Menifee, Metcalfe, Monroe, Montgomery, Morgan, Nicholas, Owsley, Perry, Pike, Powell, Pulaski, Robertson, Rockcastle, Rowan, Russell, Wayne, Whitley and Wolfe.

Customers pay for energy-efficiency retrofits from the savings produced by the retrofits on the customer's electric bill. Retrofit costs will be capped at 90 percent of the estimated savings so that customers' bills will be smaller, on average, than they were before making the efficiency improvements. The retrofit program charge will appear as a separate line item on the bills of customers participating in the program.

7. Licking Valley RECC and/or its agent will (1) market and administer the program; (2) prequalify eligible locations; (3) perform energy audits to produce conservation plans; (4) certify and maintain a list of contractors, and arrange for a certified contractor to install retrofit measures; (5) act as the customer's representative in verifying suitability of proposed retrofits, estimated savings, satisfactory installation of retrofit measures, and evaluating ongoing performance or need for repair of measures; (6) file Uniform Commercial Code ("UCC") disclosures with the county clerk for each location and provide copies to the customer; and (7) disclose pre-existing retrofit investment benefits and costs to new customers. The Proposed Tariff is attached as Exhibit A.

8. The proposed KER Rider requires the development of a "Conservation Plan" for each retrofit option proposed for a customer. The Conservation Plan is a detailed analysis of the expected savings and costs for each proposed option, with a full disclosure of the financing of the option. Copies of Conservation Plans developed during the Pilot Program (as described below) were submitted with each semi-annual report as required by the Commission.

9. Participating residential customers will be able to select from among general groups of measures, including but not limited to: (1) insulation improvements;

(2) air sealing; and (3) improvements in HVAC equipment. Commercial/small industrial accounts will have these options, plus an option for lighting improvements and upgrades.

10. The funding for the program administration, including data infrastructure, administration and implementation, will come from a combination of program revenues, existing funds, and proposals pending with private foundations and public funding sources. Licking Valley RECC and MACED will review existing funding sources, including philanthropic grants, regularly and make adjustments to the revenue structure of the program as appropriate to ensure the long-term financial sustainability of the program. MACED has developed a schedule of services provided under the program to ensure the long term sustainability of the program. The fee for these services is negotiated with each cooperative depending on the level of service needed. That agreement is documented in a Kentucky Energy Retrofit Program Memorandum of Agreement, which is attached as Exhibit C.

11. The capital for the investments will continue to come from funding MACED has on hand from private foundations and the U.S. Department of Treasury Community Development Finance Institution ("CDFI") Fund, other federal sources, and MACED's net assets. MACED is a certified CDFI.

12. MACED will continue to support a common data infrastructure to pool program data and measurements of key variables to streamline program evaluation and highlight opportunities for design improvement. Key evaluation questions include (a) are energy retrofits cost effective for utility customers; (b) are energy savings realized; and (c) how accurate are cost and energy savings estimates? Working with Licking

Valley RECC, MACED will continue to collect and analyze the data to answer these questions on an ongoing basis during the operation of the program. Based upon the experience of cooperatives in the Pilot Program, it is estimated that Licking Valley RECC's administrative costs will be negligible.

13. The KER Rider has been designed to reduce financial risks at all stages of development. Licking Valley RECC will join the existing pooled Risk Mitigation Fund established for participating EKPC cooperatives whereby a portion of the project fee -- currently assessed as five percent of the capitalized cost of projects -- will be allocated to a shared fund in case of a total loss. Licking Valley RECC will notify the Commission if the balance of the fund falls below the amount designated in existing tariffs.

PILOT AND PERMANENT PROGRAMS BY OTHER KENTUCKY UTILITES

14. Big Sandy Rural Electric Cooperative Corporation ("Big Sandy"), Fleming-Mason Energy Cooperative, Inc. ("Fleming-Mason"), Grayson Rural Electric Cooperative Corporation ("Grayson"), and Jackson Energy Cooperative Corporation ("Jackson") received permission from the Commission by order dated December 16, 2010 in Case No. 2010-00089 to establish a Pilot Program for the KER Rider ("Pilot Program"). Big Sandy, Fleming-Mason, and Grayson received permission from the Commission by order dated August 26, 2013 in Case No. 2012-00484 to implement a permanent KER Rider. Jackson subsequently filed an application for permission for a permanent KER Rider in Case No. 2013-00398. The Commission granted Jackson permission to enact the program under the proposed tariff by order dated April 7, 2014.

15. During the Pilot Project, MACED along with Big Sandy, Fleming-Mason, Grayson and Jackson completed 107 projects, and 192 Energy Assessments were

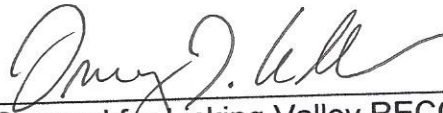
completed. Only three locations became inactive, with two resulting from foreclosure and one temporarily inactive due to a natural disaster. A total of \$773,763.00 was invested in retrofits, with \$557,773.00 in capital deployed. The average monthly charge to customers was \$38, with an average projected monthly savings of \$50 and an average annual savings of \$600. MACED has estimated that the projected annual kWh savings from projects completed during the Pilot Project is 530999 kWh, with a carbon dioxide offset of 366.39 metric tons. The projects created or saved 6 jobs. The average payback period for the completed projects was calculated to be 14.5 years. Big Sandy, Fleming-Mason, Grayson and Jackson have received no complaints from customers, and required no additional staff and incurred no substantive administrative costs.

ATTACHMENTS

16. Attached to this application are the following documents associated with the KER Rider and the on-bill financing program:

- a. Exhibit A – Proposed KER Rider
- b. Exhibit B – Prepared Testimony from Licking Valley RECC and
MACED
- c. Exhibit C – Kentucky Energy Retrofit Program Memorandum of
Agreement
- d. Exhibit D – Licking Valley RECC Articles of Incorporation

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Amy J. Hill". The signature is written in dark ink and is positioned above a horizontal line.

[Counsel for Licking Valley RECC]